

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 FRB-03 H-02 INR-07 INT-05 L-02 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 /086 W

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R 091952Z APR 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 9860

INFO AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMCONGEN GUAYAQUIL

AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: ETRD, CS

SUBJECT: STATUS OF BANANA NEGOTIATIONS

1. NEGOTIATIONS BETWEEN THE GOVERNMENT OF COSTA RICA AND THE BANANA COMPANIES HAVE REACHED A DIFFICULT STAGE. SEVERAL NEW ELEMENTS HAVE BEEN INJECTED INTO THE PICTURE:

(1) UNITED FRUIT HAS FILED SUIT CHARGING THAT THE GOVERNMENT'S BANANA EXPORT TAX IS ILLEGAL;

(2) PRESIDENT ODUBER IS PUTTING PRESSURE ON THE RESPONSIBLE GOVERNMENT OFFICIALS FOR A RAPID SOLUTION TO THE TAX PROBLEM;

(3) THE GOVERNMENT HAS DECIDED THAT THE QUESTION OF THE PRICE PAID TO INDEPENDENT PRODUCERS (PRECIO DE SALIDA) SHOULD NOT BE DECIDED BY THE GOVERNMENT BUT SHOULD BE NEGOTIATED BY THE BANANA COMPANIES

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WITH THE PRODUCERS FROM WHOM THEY BUY BANANAS;

(4) THE GOVERNMENT WISHES THE NEGOTIATIONS WITH INDEPENDENT PRODUCERS TO BE COMPLETED BEFORE IT DECIDES WHAT THE BANANA TAX SHOULD BE, WHEREAS THE BANANA COMPANIES FIND IT DIFFICULT TO DECIDE HOW MUCH THEY COULD AFFORD TO PAY THE INDEPENDENT PRODUCERS WITHOUT KNOWING HOW MUCH TAX THEY WILL HAVE TO PAY THE GOVERNMENT.

2. THE LAWSUIT AGAINST THE GOVERNMENT CHALLENGING THE LEGALITY OF THE GOVERNMENT'S BANANA TAX TENDS TO CREATE AN IMPRESSION OF OPEN CONFLICT RATHER THAN CONSTRUCTIVE NEGOTIATION AND INDEED THIS IS THE IMPRESSION THAT SOME PRESS TREATMENT HAS CREATED. CLEARLY THE LEGAL ACTION IS UNTIMELY, BUT UNITED BRANDS MANAGER VICTOR HEYL EXPLAINS THAT THE COMPANY WOULD HAVE FORFEITED ITS LEGAL RIGHTS HAD IT NOT FILED SUIT AT THIS TIME. INDEED IT WAITED UNTIL THE LAST POSSIBLE DAY TO FILE. THE GOVERNMENT UNDERSTANDS THIS AND ALTHOUGH IT HAS REQUESTED THE COMPANY TO WITHDRAW THE SUIT, IT HAS NOT, AS SUGGESTED IN THE LOCAL PRESS, STATED THAT IT WILL NOT NEGOTIATE UNTIL THE SUIT IS WITHDRAWN. FROM A LEGAL POINT OF VIEW THE COMPANY'S POSITION IS STRONG, AS THE GOVERNMENT'S BANANA TAX CLEARLY APPEARS TO BE IN VIOLATION OF THE GOVERNMENT'S CONTRACT WITH UNITED BRANDS, BUT SUCCESSFUL NEGOTIATION WITH THE GOVERNMENT WOULD PROBABLY RENDER THE SUIT UNNECESSARY.

3. THE GOVERNMENT IS PRESSING FOR AN EARLY SOLUTION BUT NEGOTIATIONS WITH THE INDEPENDENT PRODUCERS WILL BE DIFFICULT, ESPECIALLY SINCE THE GOVERNMENT WISHES TO TERMINATE ITS SUBSIDY AND RETAIN FOR ITSELF THE ENTIRE BANANA TAX. THUS, THE ONLY REVENUE THE INDEPENDENTS WOULD GET IS THAT WHICH THEY CAN NEGOTIATE WITH THE BANANA COMPANIES. THE GOVERNMENT IS REPORTEDLY URGING THE COMPANIES TO PAY THE INDEPENDENT PRODUCERS AT LEAST \$2.15 PER BOX.

4. AS FOR THE BANANA TAX ITSELF, IT IS NOT TRUE, AS ONE LOCAL NEWSPAPER STATED APRIL 8, THAT UNITED HAS REFUSED TO ACCEPT THE GOVERNMENT'S PROPOSED INCREASE TO 35 CENTS PER BOX. THE COMPANY HAS TOLD THE GOVERNMENT THAT IT OPPOSES THE BANANA TAX BUT THE COMPANY IS STILL NEGOTIATING WITH THE LIMITED OFFICIAL USE

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GOVERNMENT AS TO THE LEVEL OF THE TAX. IT WOULD APPEAR THAT THE STUMBLING BLOCK IS NOT UNITED BUT THE OTHER COMPANIES THAT HAVE DIFFICULT NEGOTIATIONS WITH THEIR INDEPENDENT PRODUCERS.

5. NEWS ABOUT UNITED BRANDS' SECRET PAYMENT OF \$1.25 MILLION TO THE HONDURAN GOVERNMENT IN THE COURSE OF NEGOTIATIONS OVER THE HONDURAN BANANA TAX (STATE 79470) CAN ONLY HAVE A NEGATIVE EFFECT ON THE NEGOTIATIONS HERE. CERTAINLY THERE

WILL BE ASSERTIONS THAT UNITED FRUIT IS UP TO ITS OLD  
IMPERIALIST TRICKS. THIS WILL BE AN UNWELCOME POLITICIZATION  
OF AN ISSUE THAT HAS BEEN DEALT WITH IN RECENT MONTHS ON A  
LESS EMOTIONAL AND MORE BUSINESSLIKE BASIS.  
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